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**Dominican Republic:
Election Prospects**

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An Intelligence Memorandum

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May 1982

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Dominican Republic: Election Prospects

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An Intelligence Memorandum

*Information available as of 5 May 1982
has been used in the preparation of this report.*

The authors of this paper are [redacted]
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Comments and queries are welcome and may be
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**Dominican Republic:
Election Prospects****Summary**

The ruling Democratic Revolutionary Party (PRD) candidate, Senator Salvador Jorge Blanco, is the likely winner of the presidential election on 16 May and is expected to head a government more at odds with US foreign policy than that of incumbent President Guzman. The presence of several leftists among Jorge Blanco's close advisers poses a possible threat of radical policy shifts by his government. Two of these will hold high positions in his administration and could undertake unilateral actions—such as issuing public statements in support of the Salvadoran insurgents or pressing for closer ties with Cuba—that would cause frictions with Washington. But Jorge Blanco is well aware of the powerful political and economic constraints against a major leftist move and therefore is likely to resist the more extreme urgings of his radical associates.

Jorge Blanco's main opponent, conservative politician and former three-term President Joaquin Balaguer, has been unable to reduce the front-runner's substantial margin. Balaguer's campaign, already weakened by the candidate's failing health, is bogged down by intraparty squabbling and an undistinguished vice presidential candidate. Alternative candidates—the Dominican Liberation Party's Juan Bosch on the left and the Quisqueyan Democratic Party's Elias Wessin y Wessin on the right—will finish well behind Jorge Blanco and Balaguer.

Dominican democracy is still in its formative stages and remains highly influenced by traditional personalist politics and emotional appeals. Although nowhere near the scale of the 1980 political violence in Jamaica, violent clashes between armed activists of the two major parties have increased tensions. The principal threat to Dominican democracy is that the military will intervene to prevent Jorge Blanco from assuming office if elected. Despite recurring rumors of coup plotting, it is unlikely that the military will disrupt the electoral process as they tried to do in 1978, but their subsequent actions before the inauguration in August are less certain.

The primary factor influencing a decision by the military leadership to intervene will be their perception of the likely US reaction. Although heavy pressure from Washington prevented a takeover in 1978, the military hierarchy may interpret US actions following the recent coup in Guatemala as a sign that the United States would not oppose a rightist move against Jorge Blanco.

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No matter who wins the elections, the new president will face an economy beset by continued weakening of its terms of trade and by the contractionary effects of austerity measures instituted by the current administration. Growth rates have tumbled in the past two years, and the short-term outlook for substantial increases in foreign investment and aid is dim. Problems of rising unemployment and an inevitable request for IMF assistance, two politically sensitive issues, are likely to be addressed immediately.

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A problem over the long term will be the loss of the Reformista Party, which will not survive Balaguer's death. Its already factionalized leadership would split and form new parties or join existing conservative groups. This splintering would leave the center-left PRD to dominate—a situation that might precipitate military action. This in turn would polarize the population, creating conditions similar to those preceding the 1965 civil war.

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Preface

On the eve of the elections, rumors and speculation are rife depicting scenarios ranging from military intervention to an alliance between former Presidents Balaguer and Bosch, and General Wessin y Wessin. With emotions heating up rapidly, it is possible that a series of destabilizing events could occur.

The Army Chief of Staff, however, supports the electoral process, making it virtually impossible for the remaining arms of the military to effect a successful coup. On balance, therefore, it is our assessment that the elections will proceed as scheduled.

The rumored triple alliance of Balaguer, Bosch, and Wessin y Wessin seems highly unlikely, as these individuals have been bitter enemies for years. Nevertheless, tensions are on the rise and probably will produce a political polarization on Sunday giving the two major candidates a higher percentage of the votes than earlier anticipated.

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**Dominican Republic:
Election Prospects**

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Background

The 16 May presidential and legislative elections in the Dominican Republic—the Caribbean's largest democracy—will mark the nation's fifth such contest and second change of presidents since the 1965 civil war. The Dominican system is one of the most pluralistic in Latin America, with 20 legally recognized parties spanning the entire political spectrum. One-half of the republic's 5 million citizens, who are evenly distributed between rural and urban areas, is eligible to vote, and some 90 percent probably will turn out for the election.

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Despite the array of political groups, two parties will dominate the contest, probably gaining more than 70 percent of the vote:

- The governing center-left Dominican Revolutionary Party (PRD), whose standard bearer is Senator Salvador Jorge Blanco.
- The center-right Reformista Party (PR), led by its founder and former President Joaquin Balaguer.

From 1966 until its electoral victory in 1978, the PRD had provided the principal opposition to Balaguer's Reformista government. By far the most developed political group in the Dominican Republic, the PRD has a defined party philosophy and a well-organized party machine. In contrast, the Reformista Party is essentially a personalistic vehicle for the conservative views of its founder and leader.

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Jorge Blanco has maintained a strong lead over Balaguer in virtually every poll taken since February, reflecting the party's large grass-roots organization and traditional strong support in the urban areas. Results in the capital city district will be the key to the electoral outcome. In 1978 the PRD outpolled the Reformistas by some 136,000 votes in Santo Domingo while running almost a dead heat in the rest of the nation. For a while it seemed doubtful that the 1978 performance could be repeated this year, as deterioration in city services—caused primarily by a running feud between the party's incumbent President Guzman and the current mayor—threatened to sap the party's strength. The danger was alleviated, however, when the charismatic party Secretary General, Jose Francisco Pena Gomez, announced his candidacy for mayor of the capital city. Pena Gomez's addition to the ticket virtually locks in the votes of his massive personal following for the PRD, both in the city and rural areas.

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The leftist Dominican Liberation Party (PLD), led by former President Juan Bosch, and the smaller rightist Quisqueyan¹ Democratic Party (PQD) could have a significant role in attracting the fringe votes of the two major parties. Ret. Gen. Wessin y Wessin, leader of the PQD, instigated the military overthrow of Bosch's democratically elected PRD government in 1963; this event ultimately led to the civil war of 1965 and the US military intervention. The Quisqueyan party, built primarily around its leader's honest image, has drawn a number of discontented Reformistas and could poll some 3 to 5 percent of the vote. Juan Bosch was a founding member of the Dominican Revolutionary Party, but broke away to start his Marxist party in 1973. He currently receives substantial Cuban backing. His party could benefit from dissatisfaction among leftist members of the PRD and might receive up to 12 percent of the vote in May, giving him several seats in the Chamber of Deputies. [REDACTED]

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The PRD

The Guzman Legacy

Incumbent President Guzman has been a disappointment to many PRD supporters. He represents the ruling party's most conservative elements, and he has been frequently at odds with the center-left and leftwing majority. Party Secretary General Pena Gomez has criticized the President sharply for bypassing veteran party members for high government positions in favor of Guzman's personal supporters. Moreover, the administration's conservative foreign policy often runs against the party's Socialist International line. In addition, the public faults Guzman for the economy's poor performance. [REDACTED]

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This legacy will hamper Jorge Blanco somewhat, although the obvious political dichotomy between the two camps has made the identification less than absolute. Prior to becoming the party's standard bearer, Jorge Blanco heavily criticized Guzman for mismanaging the economy and for failing to squelch promptly rumors that he would run for a second term in violation of the party's statutes. The reelection issue increased the animosity between the two, which dates back to Jorge Blanco's thwarted bid for the 1978 presidential nomination. Their political rivalry has undercut the efficiency of the party's campaign machinery but is unlikely to cause a serious loss of votes. [REDACTED]

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Jorge Blanco

The Man

A reserved intellectual but astute politician, Jorge Blanco is often described as an excellent administrator with a legal mind-set. His sophisticated campaign, however, has been haunted by the issue of his true ideological

¹ Quisqueya is the Indian aboriginal name for the island of Hispaniola, of which the Dominican Republic occupies the eastern two-thirds. [REDACTED]

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bent—a question raised not so much by his own political background as by the leftist convictions of some close associates. Jorge Blanco's background, however, indicates that he has been a consistent proponent of social democracy. His ideological tendencies were demonstrated early on by his concern for human rights before it was fashionable, his continuous criticism of the military role during Balaguer's administration, and his emphasis on the institutionalization of democracy and social justice in his campaign for the 1978 PRD presidential nomination. His political positions over the years have avoided Marxist prescriptions, and he chose not to accompany Juan Bosch when the latter left the PRD to found his own leftist party. [REDACTED] 25

Jorge Blanco is a successful attorney and a longtime member of the ruling party. He and Guzman were on the six-man Dominican Revolutionary Party committee that negotiated the settlement of the 1965 civil war. During 1965-73, while he was fairly active in the moderate wing of the party, Jorge became skeptical about the viability of electoral democracy under the restrictive Balaguer administration. He withdrew temporarily to his law practice but returned to politics prior to his bid for nomination in 1978. As Senate Minority Leader, Jorge Blanco drafted the 1978 Amnesty Law that allowed many political exiles to return home. He visited the United States as a Leader Grantee in 1979. [REDACTED] 25

Asela Mera de Jorge, his wife, is considered Jorge Blanco's closest and most influential adviser. She accompanies her husband on most political outings [REDACTED] and probably is partly responsible for his campaign's drive to get the female vote. Both Jorge Blanco and Mera de Jorge are products of the "Santiago clique"—a predominantly conservative group of wealthy businessmen and landowners from the republic's second city. She retains more of her conservative roots than her husband, although close family ties keep both in frequent contact with this group. [REDACTED] 25

His Inner Group and Power Bases

Much of the debate over Jorge Blanco's ideological position is caused by the diversity within his coterie. The most controversial members of his campaign team are Jose de Jesus Ovalle, Fulgencio Espinal, and Hatuey de Camps—all radical student leaders of the mid-to-late 1960s and now identified with the left wing of the party. Ovalle, a talented campaign strategist and the principal architect of the party's new grass-roots primary system, reportedly traveled to Czechoslovakia and North Korea in the early 1970s to receive unspecified training. His outspoken criticism of the Balaguer administration blocked him from returning to the Dominican Republic. He spent the next seven years in exile in New York. We have no

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other information concerning Ovalle's travel outside the Dominican Republic. Espinal, elected to the Chamber of Deputies in 1978, is an outspoken supporter of the Nicaraguan Government and the Salvadoran insurgent movement. He also advocates diplomatic relations with Havana. He was a member of a delegation of Dominican Congressmen—both from the Reformistas and PRD—who visited Cuba in 1980 to see Cuban socialism firsthand. He probably will receive a high position in the Foreign Affairs Ministry. [REDACTED]

De Camps, the aggressive president of the Chamber of Deputies, probably will occupy an influential post in a Jorge Blanco government—possibly Administrative Secretary to the Presidency. Many of de Camps' past actions have won him the label of radical leftist; for example, in the aftermath of the 1979 hurricanes he and other congressional leftists defied President Guzman's prohibition and invited Cuban relief assistance. Nevertheless, the ambitious young deputy has presidential aspirations and recently has begun to moderate his image, toning down his rhetoric, and associating with the moderate left of the ruling party. [REDACTED]

These three will be the primary advocates of more radical policies within Jorge Blanco's circle of advisers. The extent of their influence will be key in determining the ideological direction of his government. De Camps—the most moderate of the three—is a known close confidant, but Jorge Blanco's closed nature and campaign expediencies have obscured his relationship with Ovalle and Espinal. [REDACTED]

[REDACTED] Ovalle's connections within the party, however, should give him some leverage with Jorge Blanco regardless of his post-election assignment. A follower of both de Camps and Pena Gomez, Espinal's potential influence is more questionable because—unlike Ovalle—he does not have a large following in the party. [REDACTED]

These advisers have become the principal target of Jorge Blanco's opponents on the right. Allegations of Cuban backing for Jorge Blanco are also prevalent, but there is scant evidence to support these charges. [REDACTED]



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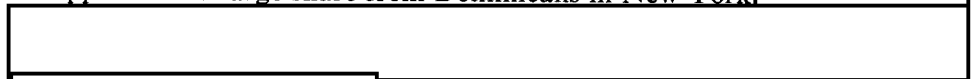
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Cuban financial aid to Jorge Blanco also has been rumored, but it is unlikely that substantial Cuban funds—if any—have been received by Jorge Blanco. The party has raised an estimated US \$10 million from its supporters—a large share from Dominicans in New York.

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It seems unlikely that Jorge Blanco would risk the political consequences of taking Cuban money when rightist and military scrutiny is so intense.

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Serving as counterweights to these radical influences are two prominent establishment moderates, the successful Avanzada Electoral organization, and numerous center-left party activists. Bernardo Vega, a leading government economic adviser since the mid-1960s, is an adviser to Jorge Blanco's campaign and may be slated for governor of the Central Bank. Milton Messina, a financial expert, advocate of foreign investment, and former Dominican Ambassador to the United States, has been closely involved in the preparation of Jorge Blanco's economic program and possibly will be named Foreign Minister. The Avanzada Electoral, a sort of "Citizens for Jorge Blanco" group encompassing a large number of business and community leaders who decline membership in the party, lends to the campaign a particular respectability.

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The inclusion of both conservatives and leftists among his advisers—several of the latter, skilled organizers and campaigners—reflects Jorge Blanco's desire for a broad base of support. Just as he is attempting to draw support from the Balaguer constituency with the help of the Avanzada Electoral group, the leftists in his entourage facilitate competition with the extreme left for the votes of a large number of discontented, nonideological Dominicans.

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Mindful of the historical propensity of the Dominican Armed Forces for political intervention, Jorge Blanco has been especially conciliatory to the military. His platform outlines increased benefits for the military such as special housing, higher pay for junior officers, and a senior institute for military training. Moreover, he has claimed credit for President Guzman's recently announced social security institute for the military.

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His Campaign

Jorge Blanco's campaign has addressed issues reflecting the party's orthodox social democratic line. The slogan, "A better future for your children with Jorge Blanco," promises continued improvement in human rights, clean government, and more egalitarian distribution of wealth. He has proposed, for example, a substantial increase in public works; encouragement of labor-intensive, export-oriented industries; continuing the gradual process of agrarian reform and agricultural development; and closer controls on the repatriation of earnings by foreign firms. He has also focused on Balaguer's weaknesses, specifically his poor health and his record of political repression. [REDACTED]

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Foreign policy issues have received low-level—and essentially vague—treatment in Jorge Blanco's platform. He has stated only that the country's "foreign relations, given our geographic situation, will be complex and different in the years ahead," but he has not repeated for domestic audiences assurances he made in the United States that he would not alter the nation's basic international posture. [REDACTED]

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Likely Policies as President

The existence of radical elements within Jorge Blanco's inner circle poses a possible threat of radicalization of his government. On balance, we believe that any predilection Jorge Blanco may have for a leftward shift would be sharply constrained by the political and economic realities of the Dominican Republic, a circumstance Jorge Blanco fully appreciates. Chief among these is the military establishment, which has a long history of political intervention. A second factor is the nation's heavy economic dependence on the United States. More than two-thirds of the nation's exports went to the United States last year, and most of the increased foreign investment needed by the Dominican Republic is expected to come from US firms. Moreover, the success of Jorge Blanco's administration will be largely dependent upon the continued support of the influential business sector. As a candidate, Jorge Blanco has shown he recognizes the importance of these forces and will take action when necessary. [REDACTED]

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As President, Jorge Blanco is likely to move cautiously in dealing with the military. The first move usually made by a newly inaugurated president is the replacement of the military high command. Jorge Blanco's choices to fill these posts will be critical for future military support. He has indicated he will follow the law enacted under Balaguer setting strict rules for promotion and assignment; this is likely to be most pleasing to the younger, more professional-minded officers. Although there are rumors that he will

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reinstate retired military supporters in defiance of the Armed Forces' Organic Law, Jorge Blanco is unlikely to provoke the military's rancor by pursuing such a politically insensitive policy. [REDACTED]

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In domestic matters, a Jorge Blanco administration will be more nationalistic and reform minded than its predecessor. The party—and Jorge Blanco himself—has characterized Guzman's presidency as a transition from Balaguer's repressive and corrupt administrations to a truly social democratic government. Some programs, however, such as social welfare and judicial and educational reforms, may founder on the nation's economic problems. A program of nationalization is unlikely; the 1961 acquisition of dictator Rafael Trujillo's family assets gave the state a significant—and often burdensome—role in the economy. Jorge Blanco will, however, seek to make foreign investors more responsive to Dominican problems. His legal background undoubtedly will come into play in scrutinizing contracts and revising the current investment law to limit competition between foreign-owned and Dominican firms. [REDACTED]

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Jorge Blanco will attempt to strike a delicate balance between pressures by the left for greater political freedom and the limited tolerance for dissidence among the military, police, and other elements on the right. His own inclination is toward political openness; human rights was the topic of his dissertation in 1951. His cabinet selections and other appointments, like his campaign team, probably will be broad based. In a similar vein, Jorge Blanco has proposed granting lifetime Senate seats to the republic's ex-Presidents. This would guarantee not only Balaguer and Guzman a voice in the government, but also Juan Bosch, who commands a significant following on the far left. Some of this will be hard for the security forces to accept. [REDACTED]

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We expect Jorge Blanco's foreign policy to be more independent of the United States and more outgoing in regional matters. For example, Jorge Blanco is likely to support strongly Mexico's plan for a negotiated settlement in El Salvador. Drawing on his experience during the Dominican civil strife, Jorge Blanco believes in the sequence of a negotiated end to fighting, the establishment of a provisional government, the exile of certain military personalities, and free elections. He is less likely, however, to support Nicaragua unquestioningly. Although partly motivated by a campaign strategy that seeks to moderate his leftist image, Jorge Blanco's backing for the Sandinistas is conditional on their maintenance of some semblance of pluralism. [REDACTED]

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Jorge Blanco also may modestly expand contacts with Cuba—which currently are limited to exchanges in the areas of sports and culture—in line with his party's philosophy of maintaining ties, especially commercial,

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with all countries. He probably will relax Guzman's tight restrictions on Cuban travel to the Dominican Republic. He recognizes the Cuban link hits a sensitive nerve in the military, and he has assured US officials that Cuba is not a priority issue. He considers closer relations with Mexico and Venezuela to be of more importance. [REDACTED] 25X

Much of his foreign policy will not contradict Washington's. Although he will decline taking a stand in areas far removed from Dominican concerns, in some cases he will be fully supportive of US interests. For example, he shares Guzman's concern over the large number of Dominicans receiving scholarships for study in the USSR. On regional matters, he probably will expand economic relations with the Caribbean's island nations, CARICOM, and the Caribbean Development Bank. Jorge Blanco welcomed President Reagan's announcement of the Caribbean Basin Initiative (CBI) and has expressed gratitude for its provisions on Dominican sugar. He probably will scrutinize its trade and investment measures carefully, however, to ensure that the Dominican Republic's best interests are served by proposed programs. Although his party officially disdains the Duvalier regime in neighboring Haiti, prospective members of Jorge Blanco's administration favor continuing the modest level of diplomatic and economic exchanges and exposing Duvalier to democratic values. [REDACTED] 25X

Balaguer's New Bid

After four years in the unfamiliar role of opposition leader, master politician Joaquin Balaguer is bidding for his fourth elected term as President. A major political figure since the late 1950s when he was a close associate of Trujillo—who once appointed him President—Balaguer is aging, nearly blinded by glaucoma, and no longer the fiery campaigner he once was. Even with some dramatic last minute pitch, he is unlikely to close the gap with Jorge Blanco. Since losing the 1978 election, Balaguer's Reformista Party has fallen into disarray because of his long absences for medical treatment, its loose organization, and lack of ideological foundation. Moreover, Balaguer's precarious health has fostered bickering for his mantle. [REDACTED] 25X

Dominican peasants have looked to Balaguer as their protector and benefactor, but both the current administration and retired Gen. Wessin y Wessin's conservative Quisqueyan Democratic Party have made some inroads in this constituency. Guzman's agrarian reforms, rural health services, and agricultural extension program have won over some allies, while the Quisqueyan candidate has hammered hard at Balaguer's weak points—his eyesight and corrupt inner circle. Rural-to-urban migration will also shrink Balaguer's following, although he can count on the votes of

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some new urbanites not yet picked up by the PRD. In addition, Balaguer will gain some support from low-income groups disappointed by the current administration. To have any chance of winning, however, he must keep the PRD lead in the capital district under 50,000. With the popular Pena Gomez running for mayor of Santo Domingo, the prospects for such an outcome are dim. [REDACTED] 25

Balaguer's health has given the Reformista vice presidential candidate unprecedented importance in this election. It is popularly assumed that the 74-year old Balaguer, who suffers from high blood pressure, diabetes, and a prostate condition in addition to glaucoma, would not survive a fourth term. Departing from usual practice, Balaguer permitted party delegates to choose his running mate. The move backfired as he was paired with Fernando Alvarez Bogaert, an ambitious Reformista known in some circles as "the \$6 million man" for his alleged embezzlement of government funds in 1975. In an unsuccessful ploy that surely undercut his image as a powerful politician, Balaguer tried to force the party to drop Alvarez by resigning from the presidential race. The desired response was not forthcoming and he was forced to withdraw his resignation two days later. [REDACTED] 25

Clearly preparing for his eventual demise, Balaguer is attempting to build an ideological base for the Reformistas. He allied them with two small Christian Democratic parties for the election, hoping to gain eventual admittance to the international movement based in Caracas. A recent decision by the central election board, however, disallowed the parties' submission of a Balaguer ticket with a different running mate, prompting one party to drop out of the alliance. The other party's affiliation with the Reformists will have little influence on balloting in this election. [REDACTED] 25

In the unlikely event of victory, Balaguer will face a political and economic situation different from the one he left in 1978. His ability to govern in the freewheeling manner of the 1970s would be frustrated by the existence of an established, skilled opposition and a bipartisan Congress that is no longer a mere rubber stamp. The system would not readily tolerate a high-handed, out-of-step executive. [REDACTED] 25

Balaguer probably would expect nonconditional US economic assistance and would wholeheartedly cooperate with the CBI. Because this term probably would be his last, he will be less susceptible to the adverse political consequences of turning to the IMF for assistance—a step many Dominicans would interpret as an invitation to foreign intervention. His economic policy would restrict social welfare programs, while emphasizing the public works that were his hallmark. [REDACTED] 25

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In foreign policy, Balaguer would continue an essentially low profile, pro-US stance. He would be unlikely to change the current level of relations with Havana or Moscow, even though during his last administration ties with Cuba were somewhat warmer than current contacts. Balaguer would be certain to support US policy in Central America. [REDACTED] 25X

The Military

Speculation about military intervention has run high throughout the campaign, stimulated especially by allegations against the leftist associates of Jorge Blanco. Politicized during the Trujillo era, most members of the armed forces are stridently anti-Communist and consider the military as a balancing force in Dominican politics. Following Guzman's 1978 electoral victory, they seized the ballot boxes in an effort to derail Guzman's victory—wanting to retain Balaguer in office and fearing that Guzman would establish a leftist regime. Strong US pressure, however, prompted them to back down. [REDACTED] 25X

Guzman, in turn, has attempted to depoliticize and professionalize the armed forces. His efforts, however, were hampered by his penchant for making key appointments on the basis of loyalty rather than merit or seniority. As a result, a number of these Guzman loyalists—whatever their ideological position—will have a strong personal distaste for Jorge Blanco. Moreover, Jorge Blanco reportedly has made several attempts to gain allies in the armed forces, further rankling both Guzman and Balaguer supporters. [REDACTED] 25X

Indeed, the armed forces on the whole, although wary of Jorge Blanco, are more concerned with those around him. The fact that their fears about Guzman proved unfounded has tempered their intolerance for left-of-center politicians. [REDACTED] 25X

The drive for professionalism—and, with it, apolitical service—has not yet caught up with the military's long-held anti-Communist fervor. Guzman weeded out most of the Trujillo-era holdovers and not a few of Balaguer's political hacks, but several anachronistic individuals still occupy high positions—most notably the Chief of the National Police and the Navy Chief of Staff. Most younger officers would oppose a return to Balaguer's politicization of military affairs, but at the same time they are apprehensive about Communist encroachment. [REDACTED] 25X

The precedent set by the United States in 1978 will be the most powerful constraint against a military intervention in the coming election. Some members of the armed forces, however, have suggested that friendly US relations with Guatemala's new military junta indicate a change of heart by

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Washington. Military interference in the balloting is nevertheless unlikely unless violence—some instances of which have already occurred—provides the plausible excuse of preservation of order. Activists for both major parties are well-armed, in contrast to the 1978 elections when the Reformistas possessed the greater share of the weaponry. Although the level of violence has yet to reach that of 1978, rising political tensions may spark excessive outbursts. As a safeguard against such violence, the Army Chief of Staff has accelerated upgrading the military's state of readiness over the last year. Recent improvements include the acquisition of armored personnel carriers, communications equipment, weapons and ammunition, and the training of a counterterrorist unit. [REDACTED]

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If Jorge Blanco wins as expected, the period between the elections and the inauguration, however, will be tricky. The military will monitor the activities of the President-elect and his advisers for any indications of Communist influence—indications that political losers will be happy to provide. If pressure grows rapidly to block Jorge Blanco from taking office, the domestic consequences and the chances for a negative US reaction would be carefully assessed by the military hierarchy before they respond. [REDACTED]

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The State of the Economy

The Loss of Steam in 1981

Economic issues will continue to preoccupy the next government as they have the Guzman administration. Even though Dominican economic performance has been stronger in recent years than that of most other Caribbean nations, the effects of the first major oil price shocks and consequent softer global demand for Dominican exports pulled economic growth down to an average of 5 percent annually in 1976-80, half the rate of the early 1970s. By 1981, under the impact of unfavorable world economic trends, economic growth fell to about 3 percent. Unemployment and the government's efforts to cut back social programs became serious political issues as the economy slowed. [REDACTED]

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Early prospects for the 1981 external accounts were favorable. With sugar prices down only slightly from the 1980 peak and production on the upswing, sugar export earnings—usually about half of total receipts—looked particularly promising. Over the course of first-half 1981, however, the deepening world recession reduced demand for major Dominican exports—sugar, gold, coffee, and cocoa—even as oil import costs rose substantially. The deteriorating terms of trade and the rising current account deficit caused the Guzman administration in June to limit raw material and intermediate goods imports and impose other restrictions that boosted some import costs more than 25 percent. These actions ultimately

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cut nominal imports for 1981 below the unusually high level of a year earlier that had attended massive foreign aid for hurricane reconstruction. As a result, Santo Domingo managed to hold the trade deficit to \$274 million. [REDACTED] 25X

The 1981 current account deficit of some \$500 million was financed largely through loans from international institutions and private lenders. Borrowing boosted the medium- and long-term foreign debt from public and private sources close to \$2 billion. To maintain foreign reserves at two-months' imports cover, Santo Domingo postponed principal payments on a major foreign loan and slowed payments on short-term credits. By the end of the year, arrears totaled some \$350 million and the buildup was beginning to reduce the availability of credit. [REDACTED] 25X

Despite the constraints imposed by continuation of a large-scale balance-of-payments deficit, the Dominican economy performed reasonably well, especially in the first half of the year. Favorable weather spurred a sharp recovery in agricultural output—particularly in the important sugar sector—from the low levels caused by hurricane damage. The subsequent increase in food processing was a boost to industrial activity. [REDACTED] 25X

As the international payments situation dictated, however, the government resorted to tighter monetary policies and reduced government investment outlays to complement the June import restrictions. Declines in export and import tax receipts caused a \$200 million shortfall in projected government revenues, but the cuts in expenditures kept the budget deficit at a moderate 3 percent of GDP. As a result of the austerity measures, economic activity began to slip toward yearend. Commercial activity in particular dropped off. Several small businesses were squeezed out by difficulties in obtaining credit and reduced import availability. For the year as a whole, GNP growth was 3.4 percent compared with 5 percent in 1980. [REDACTED] 25X

Partly in response to his austerity package, Guzman scored a success against inflation. The government was able to hold the consumer price rise to about 10 percent in 1981. [REDACTED] 25X

Deepening Recession in 1982

With the austerity program still in place and continuing low prices for Dominican exports, economic activity is expected to decline slightly this year. In light of the poor economic performance, the new government will probably seek substantial amounts of international financial assistance. Santo Domingo may even be forced to take the politically touchy step of seeking an IMF standby loan. To qualify for an IMF program, the new government will have to maintain the austerity measures even in the face of

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Table 1

Million US \$

**Dominican Republic:
Balance of Payments**

	1977	1978	1979	1980	1981 ^a	1982 ^b
Trade balance	-67	-184	-263	-553	-274	-628
Exports f.o.b.	781	676	869	962	1,180	1,000
Sugar	232	181	201	310	550	500
Imports f.o.b.	848	860	1,132	1,515	1,454	1,628
Net services and transfers	-197	-136	-118	-254	-238	-247
Current account balance	-264	-320	-381	-807	-512	-875
Capital account balance	336	208	258	658	545	719
Private	202	51	63	292	298	420
Official	134	157	195	366	247	299
SDR allocation	0	0	7	7	0	0
Gold revaluation	0	16	28	24	0	0
Change in international reserves	72	-96	-88	-118	33	-156

^a Estimated.^b Projected.

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growing criticism of the program. Until the world economy picks up and provides some stimulus for the balance of payments, import controls will continue to be required. []

The world recession will have a distinctly adverse effect on Dominican external accounts this year. Export earnings are likely to fall 15 percent. Even though the volume of sugar exports is expected to increase, average world prices will be far below last year's level, and earnings from this source could reach just \$500 million. Moreover, world prices for other Dominican commodity exports are expected to remain low. To hold the trade deficit below \$700 million, Santo Domingo is attempting to keep real import volume to last year's level. With reduced export earnings and somewhat larger service payments, the current account deficit may approach \$900 million. []

Capital inflows projected for this year will only partially cover this deficit, and Santo Domingo may be forced to draw its foreign exchange reserves down sharply. Efforts to attract increased direct private investment are meeting with limited response. Many potential investors are taking no

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Table 2

Dominican Republic:
Selected Economic Indicators

	1979	1980	1981 ^a	1982 ^b
Real GDP growth (percent)	4.8	5.4	3.4	-1.0
Per capita GNP (dollars)	1,000	1,200	1,300	1,200
Consumer price inflation (percent change)	9.1	16.8	10.0	10.0

^a Estimated.^b Projected.

action until the US Congress passes the CBI legislation. Investors and international bankers also are waiting until the new Dominican administration clarifies its economic philosophy. The recent rescheduling of payments on overdue accounts has not greatly reduced investor skepticism. [REDACTED]

Disbursements of concessional foreign loans—limited by restricted availability of counterpart funds under a tightened public budget and delays in project execution—are likely to proceed at a slow rate. While the Dominicans are counting on up to \$50 million from the Compensatory Financing Facility (CFF) of the IMF and \$20 million from a World Bank structural adjustment loan, Santo Domingo will probably be forced to turn to the IMF for a standby loan. In the Dominican Republic, such an action will be widely viewed as a threat to national sovereignty and an indictment of financial mismanagement. Since Guzman held informal discussions with the IMF and imposed many austerity measures, however, the electoral victor can approach the Fund early in the new administration without appearing to be conceding too many new conditions. [REDACTED]

**Implications for
the United States**

Just as Jamaica is perceived by regional leaders to be a barometer of Washington's ability to promote stability and economic progress, the fate of the Dominican Republic will have a strong impact on US influence in the region. No matter who wins the elections, the Dominican Republic will continue to rely on the United States for investment, aid, and access to markets. The CBI, if approved by Congress, will provide desperately needed foreign exchange. Moreover, provisions of recently established US sugar quotas will enable continued access to US sugar markets—the destination of over two-thirds of Dominican sugar exports. This dependence will restrain any Dominican leader from alienating the United States or Western nations. [REDACTED]

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As President, Jorge Blanco will be critical of US policy in Central America, but supportive in other areas, such as Poland and Afghanistan. In general, he will be inclined to uphold the positions of the Socialist International and move closer to a Third World line in international organizations. Jorge Blanco undoubtedly will move the Dominican Republic somewhat left of center, a pattern that will be reinforced to the extent that his radical advisers are allowed to express themselves publicly. Still, domestic constraints—such as the military and economic conditions—will limit the degree of basic policy shifts. Although we cannot rule out attempts by these advisers to implement more radical programs, the principal manifestation of their presence will likely be periodic, sharp criticisms of US policy. [REDACTED] 25

In economic matters, Jorge Blanco can draw upon a number of talented individuals to form an effective policy team. He is untested as a leader, however, and he will have to make a number of hard political decisions to turn the economy around. [REDACTED] 25

A Balaguer administration would back most US foreign policy initiatives, although the President might undertake some new policies to differentiate this term from his previous ones. Balaguer would welcome the CBI and attempt to provide a favorable environment for foreign investment. It is unlikely, however, that he has the leadership capability to reverse the current economic downturn. Although his past administrations have generally been credited with good economic performance, this occurred under favorable world economic conditions. Moreover, Balaguer held a tight personal rein on monetary and fiscal policies and would be unable to do so again in his present state of health. [REDACTED] 25

A Balaguer presidency could have a negative impact on the progress of Dominican democracy and on the stability of the Republic itself. Should Balaguer attempt to crack down arbitrarily on some of the extreme leftist parties or become heavyhanded in his dealings with the legislature, he could stimulate the political polarization that has not yet been buried in the past. Without an outlet for opposition, some of the more radical groups probably would attempt to undermine his government through covert and terrorist actions. [REDACTED] 25

Beyond the election, the strengthening of democratic institutions in the Dominican Republic could be derailed by two potential, but uncertain, eventualities—military intervention or the disintegration of the Reformista Party. The former would rapidly destroy the democratic process that has been some 20 years in the making. The principal constraint against such a development would be strong US opposition. [REDACTED] 25

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The other problem, the demise of the Reformista Party, is of greater concern over the longer term. Balaguer has been the glue holding the party together. He has not yet designated a successor, and if he dies without doing so, the leadership probably will fractionalize, taking with them the various party elements. Some of these diverse elements could evolve into a Christian Democratic ideology; other Reformista elements could join existing parties, or form a totally new conservative political mechanism. One prospect is almost certain no matter what occurs: the Reformista Party, as presently constituted, would no longer exist. The Dominican political system would be weakened by the proliferation of small parties, forcing a realignment and eventually leaving the center-left PRD as the dominant political entity in the country. More conservative military officers, believing—probably correctly—that an unencumbered PRD would begin a leftist tilt, might attempt to intervene. A successful coup would polarize the population and produce a situation similar to that which preceded the 1965 civil war. Either development would present serious foreign policy concerns for the United States.

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